DRN-5395201

The complaint

Mr T, through a representative, says Zopa Bank Limited irresponsibly lent to him.

What happened

Zopa operates the lending platform which gave Mr T a 60-month loan for £13,640 on 2 February 2017. The monthly repayments were £271.54 and the total repayable was £16,292.64. The loan was repaid in full in August 2021.

Mr T says he was struggling financially at the time and was living pay check to pay check. He used the loan to for everyday living costs, such as food and petrol. He thinks if Zopa had done more in-depth checks it would have seen the cycle of debt he was in. In addition, Zopa didn't make sure he understood his obligations or offer any assistance when he was struggling with the repayments. He also complained about the top up loan but it has since been confirmed the loan was not extended.

Zopa says it completed adequate checks that showed the loan was affordable for Mr T. And it offered a payment holiday and then a lower monthly repayment when Mr T was struggling

Our investigator did not uphold Mr T's complaint. He found the checks were proportionate and Zopa made a fair lending decision. He said it also offered appropriate forbearance when Mr T needed it.

Mr T disagreed with this assessment and asked for an ombudsman's review. He said he had previously been in a debt management plan, better checks would have shown his finances were under strain.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Our approach to unaffordable/irresponsible lending complaints is set out on our website and I've followed it here.

The rules and regulations when Zopa arranged the loan for Mr T required it to carry out a reasonable and proportionate assessment of whether he could afford to repay what he owed in a sustainable manner. This is sometimes referred to as an affordability assessment or an affordability check.

The checks also had to be borrower-focused. So Zopa had to think about whether repaying the credit sustainably would cause any difficulties or adverse consequences for Mr T. In other words, it wasn't enough for Zopa to simply think about the likelihood of it getting its money back, it had to consider the impact of the repayments on Mr T.

Checks also had to be proportionate to the specific circumstances of each loan application. In general, what makes up a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount, type and cost of credit they have applied for. In light of this, I think that a reasonable and proportionate check ought generally to have been more thorough:

- the lower a customer's income (reflecting that it could be more difficult to make any repayments to credit from a lower level of income);
- the higher the amount due to be repaid (reflecting that it could be more difficult to meet higher repayments from a particular level of income);
- the longer the period of time a borrower will be indebted for (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make repayments for an extended period).

There may also be other factors which could influence how detailed a proportionate check should've been for a given application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances. There was however no set list of checks Zopa had to complete.

I've kept all of this in mind when thinking about whether Zopa did what it needed to before agreeing to lend to Mr T. So to reach my conclusion I have considered the following questions:

- did Zopa complete reasonable and proportionate checks when assessing Mr T's loan application to satisfy itself that he would be able to repay the loan in a sustainable way?
- if not, what would reasonable and proportionate checks have shown?
- did Zopa make a fair lending decision?
- did Zopa act unfairly or unreasonably in some other way?

I can see Zopa asked for some information from Mr T before it approved the loan. It asked for details of his employment status, monthly income (£2,360) and housing costs (£625). It verified his declared income with one of the credit reference agencies. It also checked his credit file to understand his credit history and existing monthly credit commitments (£174.90). It ensured his remaining income would cover a minimum of £620 living costs. It asked about the purpose of the loan which was debt consolidation. From these checks combined Zopa concluded the loan would be sustainably affordable for Mr T.

I think these checks were proportionate given the monthly repayments relative to Mr T's income and his low existing level of debt. And I think Zopa made a fair lending decision based on the information it gathered. I'll explain why.

Zopa's affordability assessment showed Mr T would have around £1,288 of income each month to cover his living costs after paying rent, his existing credit commitments and this new loan. Zopa has told us based on statistics at the time it looked for a minimum of £620. So I think it was reasonable to conclude this loan was affordable for Mr T on a pounds and pence basis.

Zopa also needed to check his creditworthiness. The credit check showed no adverse data had been recorded in the last 12 months. Mr T had limited debt - £70 on a telecoms account and £3,428 on a credit card that was well managed. It showed he wasn't using an overdraft facility or payday loans. So there were no indicators of financial strain or the cycle of debt Mr T describes.

In addition, Mr T said he was taking out the loan to consolidate existing debts. I accept Mr T may not have cleared his existing balances with this loan. But Zopa could only make a reasonable decision based on the information it had available at the time. In my view, all Zopa could do was take reasonable steps to ensure the payments would be affordable for Mr T. And as Mr T didn't have a history of applying for loans with Zopa for consolidation purposes and then returning for further funds after having failing to consolidate as he said he would, I think Zopa was reasonably entitled to believe the funds would be used for the stated purpose.

Mr T argues he had previously been in a debt management plan but Zopa would not have been aware of this, unless he disclosed it. It was not recorded on his credit file in any way. It maybe he was still struggling financially but this was not evident from Zopa's proportionate checks.

It follows I don't think Zopa was wrong to lend to Mr T.

Did Zopa treat Mr T unfairly in some other way?

Mr T says he was not aware of his obligations when he took out the loan. But they were made clear in the Loan Contract Summary. He also raised that he was given no assistance when he was struggling. But I can see Zopa offered a payment freeze when he was furloughed and later reduced the monthly repayments to a more affordable amount. This is in line with its regulatory obligations and what we would expect it to do. So I cannot find any failings on its part in this regard.

My final decision

I am not upholding Mr T's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T to accept or reject my decision before 22 April 2025.

Rebecca Connelley
Ombudsman